

Message Text

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PAGE 01 STATE 005656
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TO AMEMBASSY TOKYO IMMEDIATE

C O N F I D E N T I A L STATE 005656

EXDIS PASS AMBASSADOR ALAN WOLFF FROM MIKE SMITH

E.O. 11652: GDS

TAGS: ETRD, JA

SUBJECT:U.S./ JAPANESE TEXTILE NEGOTIATIONS

REF: WOLFF/SMITH CONVERSATION 1/6/78

1. MATERIALS ON U.S./JAPANESE TEXTILE ISSUE FOLLOW. HAVE BEEN DEVELOPED WITH SHEPHERD AND RECOMMEND YOU DISCUSS WITH BOTH WEIL AND BLACKMAN.

2. ISSUE:

OUR TEXTILE INDUSTRY ADVISERS INITIALLY ARGUED IN GENEVA IN DECEMBER THAT WE SHOULD FORGET PREVIOUS TEXTILE HISTORY AND ADDRESS THE ISSUE OF THE JAPANESE TEXTILE BILATERAL IN TERMS OF CURRENT U.S. EFFORTS TO ADDRESS THE OVERALL TRADE PROBLEMS WITH JAPAN, I.E. THAT THE U.S. SHOULD INSIST JAPAN AGREE TO SIGNIFICANT ROLL BACKS IN CURRENT TEXTILE TRADE.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 005656

MORRIS BRYANT REPORTEDLY RAISED THIS ISSUE BY TELEPHONE WITH STRAUSS BEFORE THE FORMER'S COMING TO GENEVA, AND SMITH AND SHEPHERD EARLIER ASKED WOLFF AND WEIL FOR GUIDANCE.

3. SINCE INITIAL PRESENTATION BY ADVISORS IN GENEVA, THE INDUSTRY HAS BACKED OFF THIS SOMEWHAT; THEY HAVE STATED THAT THEY DO NOT WANT TEXTILES MERGED WITH OTHER ISSUES IN

YOUR TALKS WITH THE JAPANESE, AND THEY HAVE INDICATED THAT THEY REALIZE THEIR ORIGINAL PROPOSAL WAS UNREALISTIC. THEY HAVE NOT, HOWEVER, DROPPED THE IDEA THAT WE SHOULD NEGOTIATE A NEW TEXTILE AGREEMENT WHICH IS TOUGHER THAN THE CURRENT ONE, AND THEY CONTINUE TO ARGUE THAT WE SHOULD USE THE "REASONABLE DEPARTURE" PROVISION OF THE MFA (U.S. TEX/OEL IS STRONGLY OPPOSED TO THIS).

4. IN SUBSEQUENT WASHINGTON DISCUSSION WITH STATE (BARRACLOUGH/ST.JOHN), COMMERCE (WEIL/SHEPHERD) AND LABOR (SAMUEL/BLACKMAN), GENERAL LINE OF THINKING HAS BEEN THAT WE SHOULD KEEP TEXTILES IN SEPARATE NEGOTIATING FRAMEWORK, BUT WE HAVE NOT AS YET AGREED AS TO WHETHER WE SHOULD SEEK TO REPLACE CURRENT BILATERAL WITH EVEN LOOSER GENERAL CONSULTATION ARRANGEMENT THAN PRESENT BILATERAL OR SEEK TO NEGOTIATE A MORE STRUCTURED BILATERAL A LA 1971 AND 1974 DAYS.

5. KEY QUESTION ON WHICH WE WILL NEED GUIDANCE UPON YOUR RETURN ARE: (A) SHOULD WE CONDUCT THIS BILATERAL NEGOTIATION SOLELY WITHIN CONTEXT OF TEXTILE PROGRAM OR (B) SHOULD THESE BE CONSIDERED AS A SIGNIFICANT ELEMENT IN OVERALL U.S./JAPANESE TRADE NEGOTIATIONS?

6. BACKGROUND:
(A) DURING PAST FEW MONTHS JAPAN HAS ONCE AGAIN SURPASSED
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 005656

HONG KONG AS NUMBER ONE TEXTILE EXPORTER TO U.S., WITH EXPORTS EXPECTED TO TOTAL OVER 1 BILLION SQUARE YARDS EQUIVALENT FOR CALENDAR YEAR 1977. MAJOR SOURCE OF INCREASE HAS BEEN MAN-MADE FIBER YARN, BUT APPAREL CATEGORIES SUCH AS SHIRTS ALSO ON UPSWING. HOW LONG JAPAN WILL OCCUPY THIS NUMBER ONE POSITION IS QUESTION WITH UPWARD YEN MOVEMENT.

(B) INDUSTRY ADVISERS IN GENEVA INCLUDED HIGH-LEVEL ATMI DELEGATION HEADED BY ATMI PRESIDENT TIMMERMANN AND SECOND VICE PRESIDENT MORRIS BRYANT. THIS GROUP PLUS LAZARE TEPPER OF ILGWU AND REPRESENTATIVES FROM DUPONT AND MAN-MADE FIBER ASSOCIATION (BUT NOT RPT NOT THE AMALGAMATED) PRESENTED VIGOROUS ARGUMENT THAT U.S. TEXTILE INTERESTS SHOULD JOIN IN CURRENT EFFORTS TO REDRESS OVERALL BALANCE OF TRADE DEFICIT WITH JAPAN BY INSISTING ON TOUGH BILATERAL. ADVISERS URGED FOR EXAMPLE, THAT LARGE NUMBER OF CATEGORIES BE GIVEN SPECIFIC LIMITS AT LESS THAN CURRENT TRADE LEVELS (I.E., THEY REQUESTED THAT WE ROLL BACK CURRENT JAPANESE TRADE).

7. ON BASIS OF INFORMAL DISCUSSIONS TO DATE, JAPANESE

DESIRE VERY GENERAL CONSULTATION AGREEMENT WHICH WOULD PROVIDE "SANCTUARY" LEVELS FOR A FEW KEY ITEMS AND NO RESTRAINTS FOR OTHER CATEGORIES. EARLIER U.S. POSITION

HAD BEEN SIMILAR OR EVEN MORE "LIBERAL", I.E., WE HAVE BEEN PREPARED TO CONSIDER DROPPING AGREEMENT ALL TOGETHER AND RELY ON AD HOC CONSULTATIONS OR, ON A WORSE CASE BASIS, ARTICLE 3 UNILATERAL ACTION.

8. THERE IS NO WAY INDUSTRY DEMANDS AS PRESENTED IN GENEVA CAN BE MET OR EVEN APPROXIMATED IF CURRENT BILATERAL NEGOTIATIONS ARE CONDUCTED SOLELY WITHIN CONTEXT OF THE TEXTILE PROGRAM. LARGEMLY IN RESPONSE TO SPECIFIC EARLIER INDUSTRY REQUESTS, USG HAS ALREADY CUT APPROXIMATELY 1 BILLION

CONFIDENTIAL

CONFIDENTIAL

PAGE 04 STATE 005656

SQUARE YARDS OF UNUSED QUOTA FROM JAPANESE QUOTA LEVELS DURING PAST TWO YEARS AND HAS TRANSFORMED CURRENT U.S./ JAPANESE BILATERAL INTO WHAT IS ESSENTIALLY A GENERAL CONSULTATION AGREEMENT. IF WE WERE TO ATTEMPT TO NEGOTIATE A NEW STRUCTURED AGREEMENT WITH A LARGE NUMBER OF SPECIFIC LIMITS SOLELY WITHIN THE CONTEXT OF THE TEXTILE PROGRAM, WE WOULD BE UNDER GREAT GOJ PRESSURE, BASED ON OLD STRUCTURED AGREEMENTS TO GRANT QUOTA LEVELS UNACCEPTABLE TO OUR INDUSTRY ADVISERS AND PROBABLY TO U.S. DELEGATION. THE REASON FOR THIS IS THAT ONE CANNOT NEGOTIATE A BILATERAL TOTALLY OUT OF CONTEXT WITH PREVIOUS BILATERAL HISTORY AND OVERALL FRAMEWORK OF THE MFA, WITH OR WITHOUT REASONABLE DEPARTURES, UNLESS ISSUE IS POSED IN LARGER CONTEXT OF OVERALL RELATIONS.

9. RELATED PROBLEM IS THAT A SIGNIFICANT QUANTITY OF JAPANESE TEXTILE EXPORTS TO US (ESPECIALLY MAN-MADE FIBER YARNS AND SOME FABRICS) ARE COMING IN AT SUSPICIOUS PRICES, ACCOUNTING FOR AT LEAST SOME OF THE VOLUME INCREASES. GOJ TEXTILE OFFICIALS HAVE BEEN INFORMALLY ADVISED THAT U.S. INDUSTRY WATCHING THIS LIKE A HAWK AND THAT ANTI-DUMPING ACTIONS MIGHT ENSUE (TWO ACTIONS HAVE ALREADY). SUCH SALES ARE IN PART CAUSED BY HUGE OVER-CAPACITY IN JAPAN (AND REST OF WORLD). U.S. TEXTILE PRODUCERS, IN FACT MAY BE ENGAGING IN SIMILAR LOW PRICE SALES IN PRC AND TAIWAN, JAPAN'S TRADITIONAL MARKETS.

10. KEY TO ALL ABOVE MAY BE FUTURE RELATIONSHIP OF YEN TO DOLLAR, RATIONALIZATION OF JAPANESE TEXTILE INDUSTRY, AND GENERAL UPSWING IN WORLD TEXTILE ECONOMY. VANCE

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